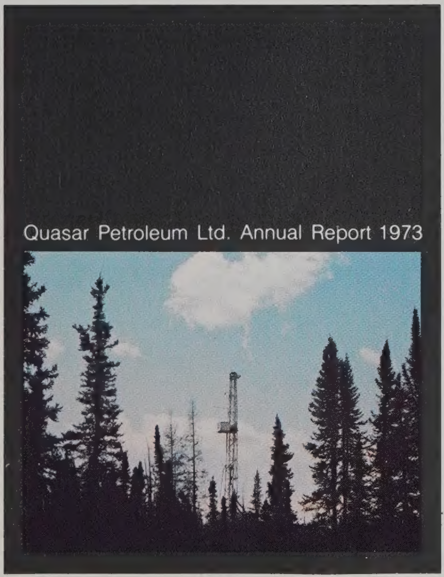
Quasar Petroleum Ltd. Annual Report 1973

Index



On The Cover

The Grizzly A-2 well drilling during 1973, was tested as this report went to press, confirming management's belief that the Grizzly Valley structure is a significant discovery.

Annual Meeting Of Shareholders

The annual Meeting of Shareholders of Quasar Petroleum Ltd. will be held at 4:00 p.m., June 21, 1974, at the Calgary Inn, Calgary, Alberta, Canada. You are cordially invited to attend. Shareholders unable to attend are encouraged to vote by proxy.

Toronto Stock Exchange Listing

The shares of Quasar Petroleum Ltd., are listed for trading by the Toronto Stock Exchange. Shares are traded under the symbol "QRP".

Vancouver Stock Exchange Listing

The shares of Quasar Petroleum Ltd., are listed for trading by the Vancouver Stock Exchange. Shares are traded under the symbol "QRPV".

Financial Highlights

	1973	1972	Change
Revenues	$ 341,000	$ 143,000	$ 198,000
Net loss	$ (358,000)	$ (330,000)	$ (28,000)
Per share	$ (.09)	$ (.09)	$ —
Working capital applied to operations ..	$ 206,000	$ 122,000	$ 84,000
Total assets	$ 8,152,000	$ 5,963,000	$ 2,189,000
Shareholders' equity	$ 3,104,000	$ 3,249,000	$ (145,000)
Per share	$ .77	$ .81	$ (.04)
Average common shares outstanding ...	4,027,000	3,791,000	236,000

An Overview

Quasar Petroleum Ltd. is an asset growth company that explores for, develops, and produces reserves of oil and natural gas in Canada.

Organized in 1969, the company has conducted its activities in the Western Canadian Sedimentary Basin, an area encompassing approximately 1,500,000 square miles. Bordered on the east by the Pre-Cambrian Shield and on the west by the foothills of the Canadian Rockies, this area extends from the Beaufort Sea in the Canadian Arctic to the United States border.

Exploration, development and production efforts of Quasar Petroleum Ltd. are more concentrated in the provinces of Alberta and portions of North Eastern British Columbia. Its head offices are located in Calgary, Alberta.

The company operates under the basic premise that the search for hydrocarbon fuels in Canada should be conducted in areas where the risk-to-gain ratios are highest.

Exploring for large-scale oil and gas reserves in remote areas and in deep geological strata is extremely expensive.

The large amounts of investment capital required to fulfill the company's basic operating premise are supplied by public subscription in limited partnerships offered by Canadian-American Resources Fund, Inc., a wholly-owned subsidiary of American Quasar Petroleum Co. Quasar Petroleum Ltd. is an 80.7 percent owned subsidiary of American Quasar Petroleum Co., headquartered in Fort Worth, Texas.

Quasar Petroleum Ltd. conducts drilling programs as joint venture partner with the limited partnerships formed by Canadian-American Resources Fund, Inc.

Ending 1973, our estimated net proven reserves amount to 851,500 barrels of oil and 80.8 billion cubic feet of natural gas. The company's reserves are valued in estimated future net revenues at $36,620,000, according to a recent evaluation conducted by independent petroleum consultants.

Quasar's exploratory success ratio from 1970 through 1973 amounted to 26.5 percent, compared to an industry average for Western Canada of approximately 17.2 percent. Our cost in finding oil and gas remains among the lowest in the industry, amounting to approximately 40 cents per barrel of oil and gas equivalent — based on a conversion factor of ten thousand cubic feet of gas equal to one barrel of oil.

(Below) Quasar's Oetco No. 1 drilling in Northeast British Columbia.

Report To Shareholders

Late 1973 brought into focus the need for increased supplies of hydrocarbon energy sources developed in the Western World. Your company has entered 1974 in a strong position, prepared to meet the demands of the future and to bring new sources of oil and gas into production for consumers in a waiting market.

Discoveries of natural gas in Canada have increased your company's estimated net proved reserves from 56.7 billion cubic feet in 1972 to 80.8 billion cubic feet in 1973.

Quasar Petroleum Ltd. has increased its estimated proved net reserves of oil from 780,000 barrels in 1972 to 851,500 barrels in 1973.

Future net revenues based on estimated proved reserves of natural gas and oil now are estimated at $36,620,000.

Production of oil from Quasar wells during 1973 has risen to 117,300 barrels compared to 99,200 barrels for 1972, an increase of 18 percent.

The energy shortages in North America have fostered activity in government. While speculations and proposals of policy changes are being debated at federal and provincial levels, one fact remains constant: the increasing consumer need for hydrocarbon fuels continues.

A recent price redetermination decision by The Alberta Energy Resources Conservation Board acting as arbitrator, indicates the wellhead price of natural gas in Alberta will increase towards its fair commodity value. The decision is expected to set a new higher floor price for gas in Alberta and throughout the western Canadian producing provinces.

Alberta and Southern was also involved in redetermination of gas prices for Alberta gas production when it renegotiated the majority of its contracts at a rate of about 56.8 cents per thousand cubic feet to be effective July 1, 1974.

During 1973 several major changes have taken place in the Province of British Columbia, especially with regard to the marketing of natural gas.

British Columbia is experiencing a short-fall of natural gas for domestic supplies. This short-fall is expected to increase unless new reserves are brought to market.

The British Columbia provincial government has created a new Crown Corporation known as The British Columbia Petroleum Corporation, such corporation has the authority to purchase and market natural gas produced within the Province.

BCPC has set the wholesale price of gas at 58 cents per thousand cubic feet for domestic markets and 61 cents per thousand cubic feet for the export market.

(Below) Testing of Quasar's Grizzly A-2 well. The flare shot more than 220 feet into the air. This well is the deepest in British Columbia.

In 1972, Quasar Petroleum Ltd. entered into a contractual arrangement with Alberta and Southern Gas Co. Ltd. for the sale of our Grizzly Valley reserves. It now appears the British Columbia Petroleum Corporation and Alberta and Southern will be making an arrangement for the marketing of our Grizzly Valley natural gas.

We anticipate that any arrangement between BCPC and A&S will eventually work to our benefit.

Our exploration activities in the Grizzly Valley area continue. The prospects for new discoveries of large reserves and full development of the already discovered natural gas reservoirs are encouraging.

At present our discoveries of natural gas in Canada are, for the most part, shut-in at the wellhead, because well locations are some distance from existing pipelines. The reserves await construction of pipelines which will bring the production of our wells to market.

In early 1973 the Company entered into contractual negotiations with Pan-Alberta Gas, Ltd. for the gas from nine shut-in wells in Alberta. Because of Pan-Alberta's inability to get timely export approval for its products, we have allowed our contracts with them to expire. Our gas supply and price situation in Canada has improved substantially in the past year. We have already contracted some of this gas at more favourable prices and are engaged in negotiations for the sale of the remainder.

As we go to press with this report, our new gas plant at South Sylvan Lake, Alberta, is being completed. The production of the shut-in wells in the Sylvan Lake field will then be brought on stream. Initially 880,000 net cubic feet of natural gas per day will be produced from our wells, and the rate to double later this year.

Your company owns approximately 25 percent of the South Sylvan Lake gas plant currently under construction.

The thrust of our activities in Canada continues to be exploration.

Provided that governmental tax structures are fixed at levels that encourage high risk exploration, we will continue with our planned joint venture budget. The 1974 budget is estimated at 10 - 13 million dollars and will result in the same level of activity as in 1973. The greater part of this sum will be used to continue exploration activities in the high risk-to-gain areas which have yielded good returns on investment for your company.

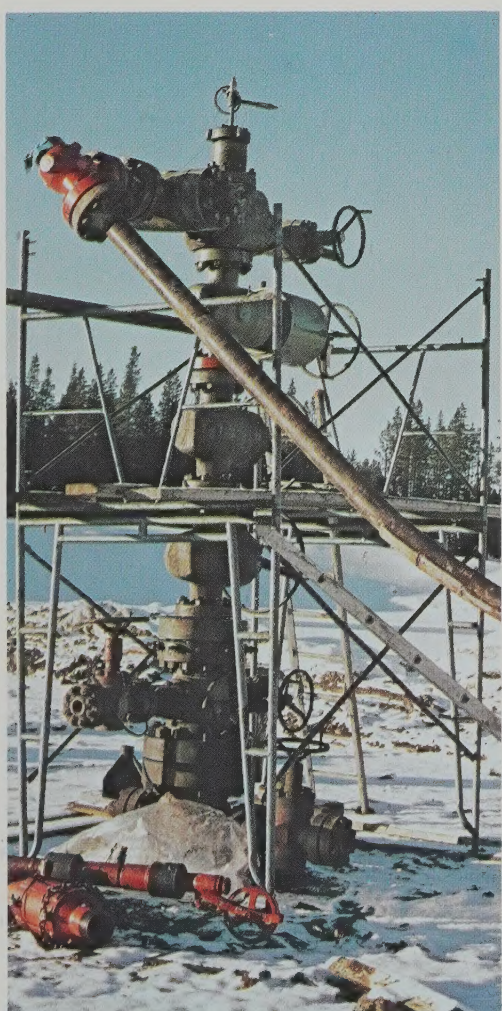
In summary, 1973 was a year of continued growth for your company — a year in which the foundation for future earnings was broadened.

We would like to thank our shareholders for their loyalty, and credit our employees for their outstanding performance, dedication and support. With these elements as a basis, we are confident of continued success.

For the Board of Directors,

C. O. Ted Collins, Jr.

C. O. Ted Collins, Jr.
President



Bobby F. Abernathy *C. O. Ted Collins, Jr.* *William M. Bogert* *J. Kenneth Grove*

Operations

Quasar Petroleum Ltd. continues to guide its operations by the founding premise of the company: to search for large accumulations of oil and gas in remote areas, often in deep strata, where exploration costs are high, but where potential returns on invested capital are greatest. The company believes that the discovery of large reserves more than justifies the expense of finding them and bringing them into production.

Quasar concentrates its efforts in the Western Canadian Sedimentary Basin. Exploration activities are emphasized and growth is achieved by building reserves and future income potential which will be reinvested in further exploration and development.

The plains of Alberta and the Rocky Mountain Foothills of Alberta and British Columbia are the two areas in which Quasar has taken a major position, has invested large sums of money for exploration, and has achieved reasonable success.

Exploration

The development of geological and seismic surveys must be accomplished to establish likely sites for exploration. A thorough knowledge of underlying strata must precede drilling.

Wilderness areas, many only mapped from the air, must be prepared for the extended habitation of drilling crews. Camps and storage facilities must be constructed. Drilling into deep strata takes time. These combined factors require a large investment in each exploratory test.

Grizzly Valley
British Columbia

In the Grizzly Valley Area, Quasar Petroleum Ltd. owns or has the right to earn, varying interests in approximately 400,232 gross acres of land covering an aerial distance in excess of 100 miles.

In 1971, the company drilled a discovery well (Grizzly A-1) in the Grizzly Valley area, some 70 miles south of Dawson Creek, British Columbia.

The Grizzly A-1 well penetrated three formations which gave indications of commercially productive natural gas — the Nikanassin, the Baldonnel and the Halfway formations. At a depth of 12,861 feet, in the Halfway the well blew out with flow rates estimated as high as 100 million cubic feet of natural gas per day. The blowout was brought under control, but drilling was suspended on the well before it reached its target depth of 17,000 feet in the Mississippian.

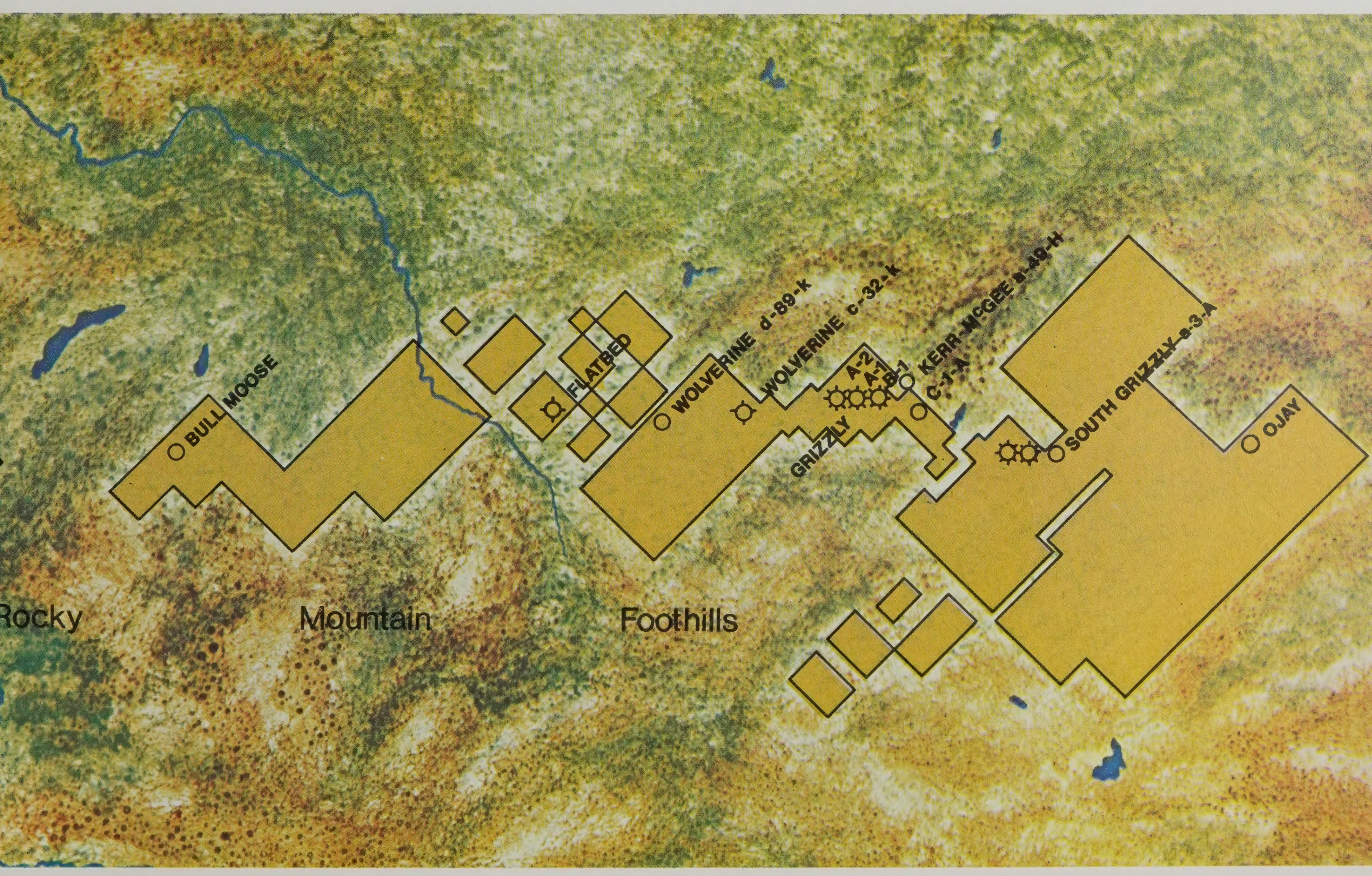
After intensive geological and geophysical study, management believes the discovery has the potential to be a significant gas field.

Quasar management's evaluation of Grizzly Valley's potential was partially confirmed when a well, designated B-1, was successfully completed in the Nikanassin at approximately 9,000 feet. During drilling the well flowed at rates in excess of 7 million cubic feet per day from the Commotion Sands, and at rates up to 26 million cubic feet of sweet gas per day from the Nikanassin. The well is now shut-in, its production awaiting a pipeline to transport its reserves to market. The company has an approximate 30 percent working interest in this well.

The Grizzly A-2 became the first successful completion from the Halfway zone, further substantiating management's belief in the potential of the discovery in the Grizzly Valley area. The two previous wells, which penetrated the productive zone, blew out and completion efforts were abandoned. The A-2 well flowed at rates of 40.8 million cubic feet of gas per day through a one-inch choke at 2277 pounds per square inch of flowing pressure. Prior to plugging back in the Halfway formation, the well tested non-commercial gas from the Mississippian formation. The well reached a total depth of 17,250 feet and is the deepest in British Columbia.

(Opposite Page, Left) Western Canadian Sedimentary Basin showing Quasar's areas of activity.

(Below) Quasar's well activity in Grizzly Valley.



Well Status

During 1973 Grizzly C-1A was drilled to the Fernie member, just below the Nikanassin. Although gas was encountered in the Nikanassin, it was not present in commercial quantities, and the well was plugged and abandoned.

A well designated Flatbed was also completed during 1973 in this same area. All expected horizons were encountered at greater depths than anticipated, and the well yielded no indications of hydrocarbons. It was plugged and abandoned. By drilling this well Quasar earned an undivided 20 percent working interest in 52,913 permit acres.

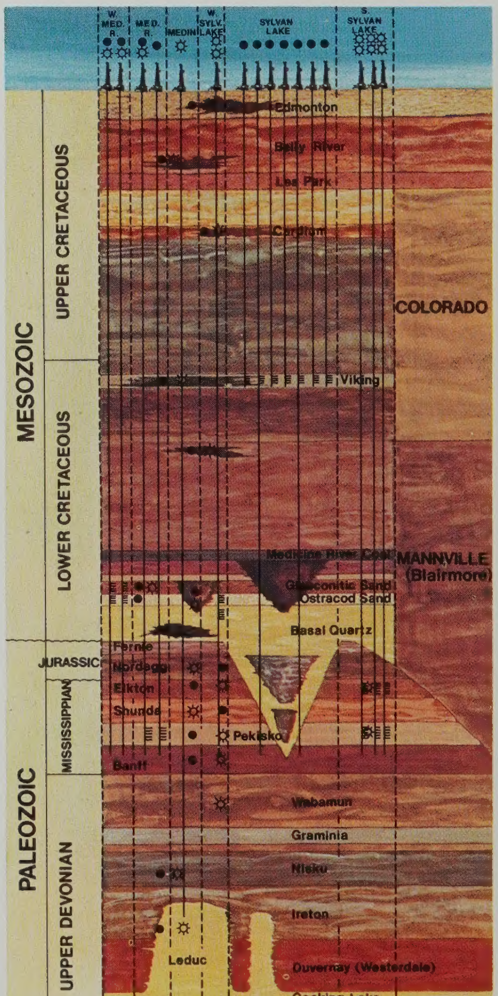
Wolverine c-32-K was also plugged and abandoned due to severe stratigraphic and structural complications in the Cretaceous Gething. A substitute test Wolverine well, approximately five miles northwest, is now drilling at a depth of 8,500 feet, toward a total depth of 12,600 in the Halfway. The company has a 40 percent working interest in the well and the option to earn a 15 percent working interest in approximately 85,000 permit acres by drilling to target depth and electing to drill additional wells.

The Grizzly a-3-A, drilled during 1973, encountered both the Nikanassin and Halfway sands, but there was insufficient permeability and fracturing to yield hydrocarbons. The well did satisfy land commitments and earned extensive land holdings.

Quasar's southernmost test in the area, Ojay, is located twenty miles southeast of the main Grizzly Valley gas field. The well is currently drilling at 6,300 feet. Objective horizons are the Nikanassin at 7,400 feet, the Baldonnel at 11,000 feet and the Halfway at 12,000 feet. The company has a 40 percent net working interest in the well and will earn 20 percent net working interest in 18,475 acres.

(Below Right) Stratigraphy of Quasar's Alberta fields.

(Below Left) Quasar's operational premise — search for hydrocarbons in remote areas, often at great depths and deep strata where risk-to-gain ratios are highest — demonstrated by fog and snow shrouded Oetco No. 1 drilling northwest of Grizzly Valley.



Some 50 miles northwest of the original Quasar discovery well, Oetco was spudded in late December 1973. The well is drilling at 11,000 feet in the Nikanassin and has encountered no commercial gas to date. Major objectives are the Baldonnel at 12,000 feet and the Halfway at 14,000 feet. Oetco is the most northwesterly well drilled on the Grizzly trend by Quasar. The company has a 40 percent net working interest in the well and will earn a 20 percent net working interest in 36,260 acres.

Approximately 36 miles north of Quasar's Grizzly discovery well, the company recently began drilling a well designated Bullmoose. Its main objectives are the Nikanassin, Baldonnel and Halfway zones, and the well is targeted for total depth in the Halfway at approximately 14,000 feet. The company has a 40 percent net working interest in the well and can earn up to a 16 percent net working interest in 59,914 acres.

One other well in which Quasar holds an interest in Grizzly Valley is the Kerr-McGee operated a-49-H well. The well is currently drilling below 9,000 feet and as parties participating in the well have agreed to hold information confidential, no information can be given in respect to this well at this time.

We anticipate the British Columbia Petroleum Corporation, a new Crown Corporation, and Alberta and Southern Gas Co. Ltd., [to whom the company's Grizzly Valley gas has been dedicated] will be discussing the marketing of Grizzly Valley reserves. It is anticipated that construction of pipelines to transport our natural gas to market to relieve shortages being experienced in British Columbia will commence at an early date. The company and its other participants have received $5,121,000 to date in advance payments from Alberta and Southern, and can receive up to $11,380,000 as additional reserves are proven.

(Below Right) Quasar Petroleum Ltd. is part owner of a new gas processing plant under construction at South Sylvan Lake, Alberta. The plant will go on stream during the second quarter of 1974.

In 1974, the company plans to continue its exploration program and extend its operations in the Grizzly Valley area.

As the present price of natural gas increases, and the policies of government stabilize, Quasar Petroleum Ltd. plans to expand its exploration operations north into the Yukon and Northwest Territories.

The Rocky Mountain Foothills of Alberta is another area in which Quasar Petroleum Ltd. believes large reserves of natural gas may be discovered. In this relatively unexplored region, Quasar has participated in the drilling of a total of five wells.

During 1973 we drilled five wells in the Peace River Arch area. Four were plugged and abandoned, one was completed as a gas well. Designated Philcan 10-32, the well was completed in the Gething zone and flowed on drill stem test at 2 million cubic feet of natural gas per day.

In Northern Alberta, four wells were drilled to test the Beaverhill Lake formation. One designated the Huile 8-15 was completed and produces 55 barrels of oil per day. A second Huile well was drilled, plugged and abandoned. A third well, designated Christmas 6-18 was completed in the Viking sand and flowed on drill stem test at approximately 6 million cubic feet of gas per day. The well is shut-in, but an early market for the gas is anticipated and future development drilling is planned. One offset well has been completed, and this well appears to be similar in all respects to the discovery well.

In Central Alberta emphasis will continue on the Sylvan Lake-Medicine River area, where the company has been successful.

Development And Production

Quasar Petroleum Ltd. has continued development drilling in Alberta during 1973. Both natural gas and oil wells are contributing to the company's growing net proved reserves and estimated future net revenues.

The Simonette gas plant, built in 1972 by Quasar approximately 130 miles northwest of Edmonton, processes gas at a rate of 2.2 million gross

cubic feet per day, in which the company has a net interest of 1.1 million cubic feet per day. Quasar and its partners own a 70 percent interest in the Simonette gas plant.

The West Medicine River discovery well in 1972 encountered two producing horizons. Natural gas was tested from the Ostracod zone at a rate of 3.3 million cubic feet per day with condensate, on drill stem test and the well was completed as a Glauconitic well at 160 barrels per day. The company owns a 20 percent net working interest in this well. During 1973 a successful Glauconitic oil well was drilled in the area, which produces 150 barrels of oil per day and indicated commercial quantities of gas in the Ostracod zone. The company owns a 10 percent net working interest in this well and any additional wells to be drilled on this prospect.

These wells are currently on production at the full allowable rate of 2500 barrels per month. The company plans two more wells in this area in 1974.

Approximately five miles east of West Medicine River, Quasar drilled a successful Pekisko oil well which is capable of producing at full allowable recovery of 2800 barrels per month. Additional development drilling is contemplated pending provincial spacing rulings.

The company presently operates seven producing oil wells in the Sylvan Lake Viking A field.

Production from these wells totals 150 barrels per day. During 1973 one well was drilled and completed as a maximum allowable Viking oil well. When gas conservation goes into effect in late 1974, production of all wells will increase.

During the second quarter of 1974 the newly constructed South Sylvan Lake gas plant will come on stream to process the sweet gas from the company's three wells at an initial rate of 880,000 net cubic feet per day. This rate should double in October, 1974. Two of these wells are dual completions and produce gas from the Elkton and the Pekisko formations. Quasar has an approximate 25 percent net working interest in the South Sylvan Lake plant which will initially process 10 million cubic feet per day, yielding 130 barrels per day of condensate and 200 barrels per day of LPG. This rate should also double in October, 1974.

Status Of Important Field Development As Of March 15, 1974

Field Name	Location	Wells as of March 15, 1974: Presently Completed	Drilling	Development: 1974	Development: Future	Status	Production/Day: Gross Current	Production/Day: *Ultimate Potential	Average QPL Net Revenue Interest
N. Grizzly	B. C.	3	1	1	14	S.I.	—	300 MMCF	.22
Sylvan Lake	Alberta	4	—	1	—	S.I. (Gas Plant Being Built)	—	22 MMCF	.09
Sylake Viking "A"	Alberta	7	—	1	1	Prod.	150 bbls	250 bbls	.40
Drumheller D-Z	Alberta	2	—	—	—	Prod.	170 bbls	200 bbls	.28
Rainbow	Alberta	2	—	—	—	Prod.	200 bbls	250 bbls	.18
W. Med. River	Alberta	2 Oil	1 Oil	2 Oil	—	2 Prod. Oil-Tested Gas	50 bbls	200 bbls 5 MMCF	.10
Simonette	Alberta	1	—	—	—	Prod.	2.2 MMCF	4 MMCF	.24
Samson	Alberta	2	—	1	—	S.I.	—	4 MMCF	.17
Christmas	Alberta	2	—	—	—	S.I.	—	5 MMCF	.28
Provost	Alberta	4	—	—	—	S.I.	—	2 MMCF	.19
Redwater	Alberta	2	—	—	4	S.I.	—	3 MMCF	.17
Med River Pekisko	Alberta	2	—	—	1	Prod.	90 bbls	1 MMCF 150 bbls	.17
Atim	Alberta	2	—	—	—	S.I.	—	0.6 MMCF	.20
Gilby	Alberta	1	—	—	—	S.I.	—	1.5 MMCF 80 bbls	.15
Erskine	Alberta	2	—	—	—	S.I.	—	1.5 MMCF	.17

Prod.—Producing; S.I.—Shut In; MMCF—Million Cubic Feet; bbls.—Barrels Of Oil; *—Assuming Successful Development

Considerable reserves of gas from four wells in the company's Provost Field in southeastern Alberta are presently shut in, but will be expected to go on stream at an early date. The wells drilled in 1973 completed development of this pool. The company has an approximate 24 percent net working interest in these wells.

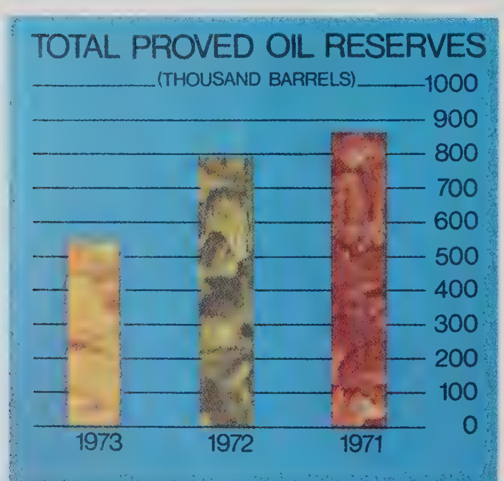
During 1973, a discovery was made at Rainbow. The well, Black Rain 6-24, which encountered oil in the Keg River Devonian Reef, is flowing at its allowable of 190 barrels per day.

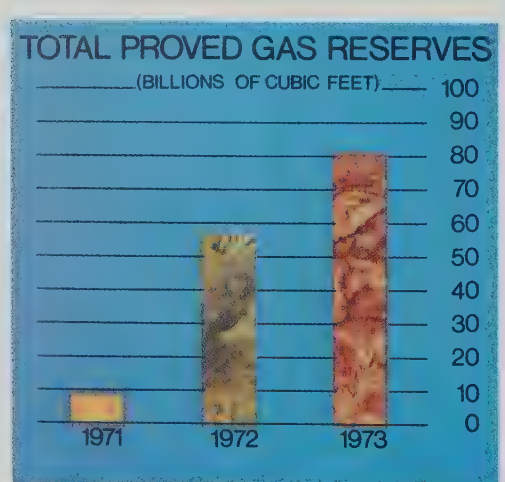
This area is characterized by prolific pinnacle reef reservoirs of relatively small areal extent, which management believes can be adequately drained by single wells.

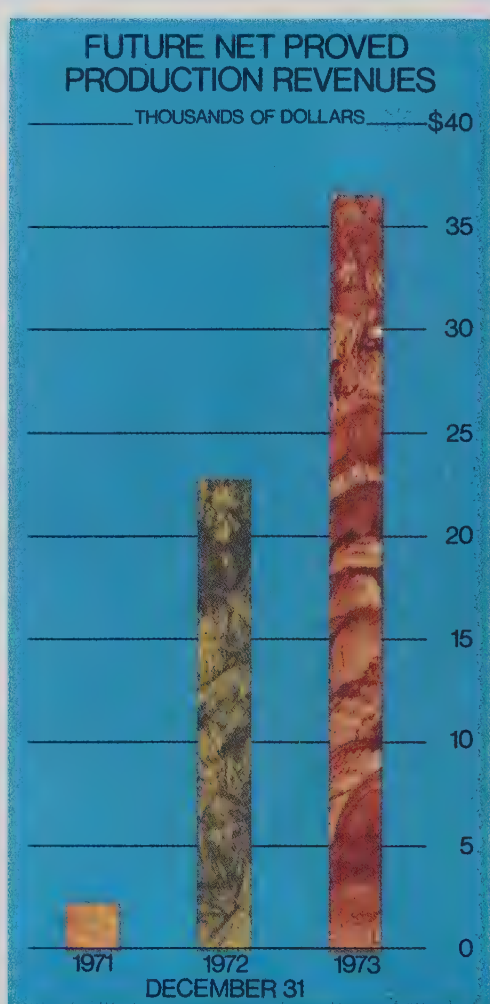
The Drumheller discovery well, drilled in 1971, continues to produce 100 barrels of oil per day. In 1973, Quasar drilled and completed a second oil well, designated Drum W 10-33, in the Nisku formation. This well is capable of producing 70 barrels of oil per day.

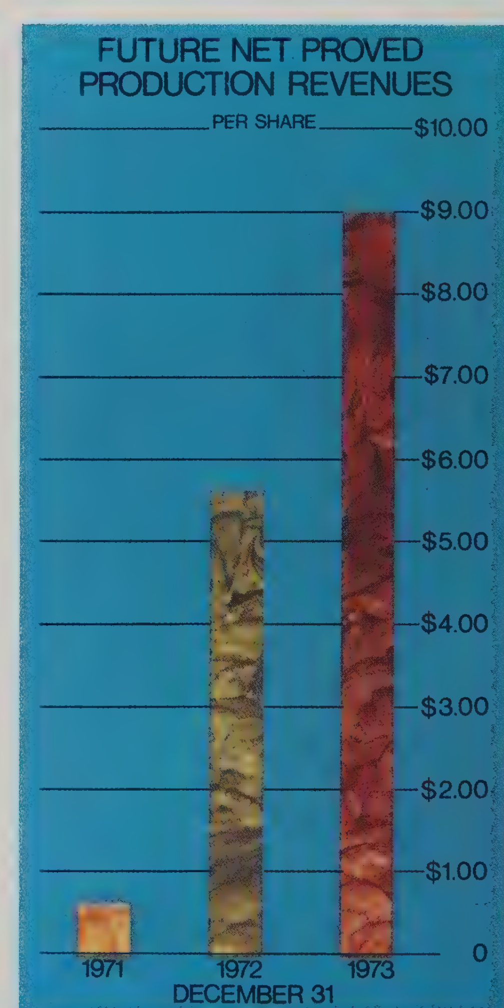
In early 1973, the company entered into negotiations with Pan-Alberta Gas, Ltd. which would have utilized gas from nine of Quasar's shut-in wells located at the Samson, Erskine, Redwater, Hespero and Medicine River Prospects in Alberta. Because of Pan-Alberta's inability to get timely export approval for its products, the company has allowed the contract with them to expire. However, Quasar is presently negotiating with other gas purchasers for the sale of this gas, and anticipates having these wells on stream in late 1974 or early 1975. The gas from these wells remains shut in. The company's net interest is approximately 30 percent.

We are presently negotiating for the sale of our Gilby gas and anticipate a price of 52.5 cents per thousand cubic feet, under a solution gas contract.









Glossary of Terms

Administrative expense: Corporate overhead, including administrative and geological salaries. The Company does not assign overhead to exploration prospects.

Completed well: A well capable of producing oil or gas; or a well drilled to such depth that oil or gas is not likely to be encountered; or a dry hole.

Deep well: A well drilled to a depth between 13,000 feet and 20,000 feet.

Estimated reserves: The amount of oil or gas which is estimated to remain underground, based upon preliminary testing, and prior to delineation of the entire field discovered. All the Company's estimated reserves are based upon independent engineering evaluations.

Exploration expense: Costs incurred in connection with the acquisition and/or evaluation of prospects that are subsequently determined not to justify drilling.

Exploratory success ratio: A percentage reflecting the number of exploratory (wildcat) wells drilled which discovered commercial oil or gas, in relation to the total number of wildcats drilled.

Future net revenues: Projections made by independent engineers of future cash flow from oil and gas sales, after deduction of operating costs. Prices used are based upon contract provisions for natural gas sales and annual escalation of oil prices up to $10.00 per barrel.

Hydrocarbons: Oil, condensate, or natural gas.

Intangible costs: All expenditures incident to and necessary for the drilling of oil or gas wells and the preparation of wells for production. In general, these are expenditures for items which, in themselves, do not have a salvage value — as defined by the Internal Revenue Service.

Joint venture: Exploration and development activities conducted by the Quasar companies in participation with public limited partnerships formed and managed by Can-Am.

Prospect: A block of land in which drilling rights have been accumulated, deemed by engineering, geological and geophysical evaluations, economic and other data to be attractive for prospecting for oil or gas.

Proved reserves: The estimated quantities of oil or gas which, through testing, have been proven to exist underground after the delineation of a discovered field.

Reserves: The estimated quantity of oil or gas which remains underground to be used or sold.

Revenues: Gross receipts or receivables from sales before the deduction of related costs.

Shut-in well: A well with proven reserves which are ready for but not on production until the means of transportation of the product is available (usually until the construction of a pipeline in close proximity to the well).

Tangible costs: Costs of materials associated with the drilling and/or operation of a well which, by their physical nature, have a salvage value. These include, but are not limited to, casing, tubing, pipe, tanks, boilers and engines.

Exploration Activities

	1973	1972	1971	1970
Exploratory Success Ratio				
Company:				
Canada	28.6%	27.9%	17.7%	29.2%
Industry:				
Canada	*NA	20.2%	16.5%	14.1%

*Industry exploratory success ratio data is not available for 1973

Production & Reserves

	1973	1972	1971	1970
Oil and Condensate Production (bbls.)	46,900	37,700	19,200	1,000
Gas Production (MCF)	193,300	135,000	—	—
Oil and Condensate Reserves (bbls.)	851,500	780,000	524,000	—
Gas Reserves (MCF)	80,800,000	56,700,000	8,800,000	—
NUMBER OF EMPLOYEES	18	12	11	9

Our Employees A Vital Resource

The continuing success of Quasar Petroleum Ltd. directly relates to the vigorous efforts of our staff, whose experience and dedication establish our future growth.

During 1973, key members were added to our headquarters team, our engineering and geological staffs. Quasar Petroleum Ltd. employees are among the most experienced in Canada.

As we enter 1974 our staff includes:

BOBBY F. ABERNATHY, executive vice president, a petroleum engineer, has worked in the oil and gas industry since 1955, and served seventeen years with a major oil company in Canada and the United States.

WILLIAM M. BOGERT, vice president — operations, has worked in the oil and gas industry for twenty-five years for major oil companies in Canada and the United States. His supervisory experience has been principally remote drilling in the Rocky Mountain Foothills.

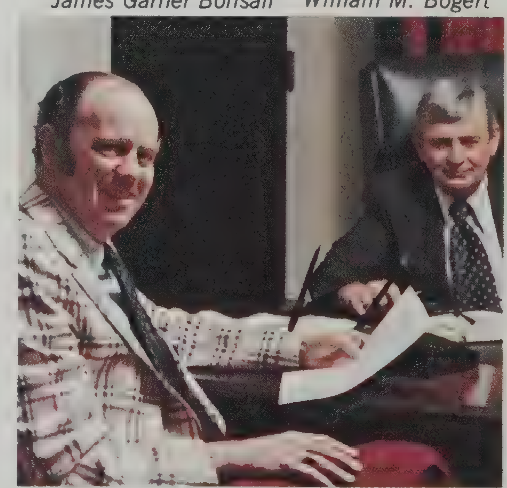
JAMES G. BONSALL, chief engineer, has worked in the oil and gas industry since 1954. His experience includes gas processing as well as drilling and completion operations. He held supervisory positions with a major oil company for fifteen years. Bonsall was born in Toronto, Ontario.

J. KENNETH GROVE, vice president — land, a new member of the Quasar team, has worked in the oil and gas industry in western Canada since 1956. He served as assistant division landman for a major oil company in Canada, and was director and general manager for a Canadian oil and gas firm prior to joining Quasar Petroleum Ltd. in October 1973. Grove attended the Royal Military College at Kingston and was born in Edmonton, Alberta.

ROBERT HOVDEBO, frontier geologist, has extensive experience in surface and subsurface geology in the Alberta and British Columbia foothills region as well as in the Yukon and Northwest Territories. He has worked in the oil and gas industry since 1955. Hovdebo was born in Kinistino, Saskatchewan and received a Master of Science degree in geology from the University of Saskatchewan.

Bobby F. Abernathy *William M. Bogert* *J. Kenneth Grove*

James Garner Bonsall *William M. Bogert*



Robert Hovdebo *Stewart Hobbs* *Denis Bacon*

DENIS BACON, chief exploration geologist, has eighteen years of experience with both major and independent oil companies in the Western Canadian Sedimentary Basin. His extensive experience in the foothills region of Eastern British Columbia and in the subsurface of Alberta and Northeastern British Columbia give him a thorough knowledge in Quasar's primary fields of interest. Bacon was born in Calgary, Alberta and graduated from the University of British Columbia with a Bachelor of Science degree.

STEWART HOBBS, chief exploitation geologist, has worked in the oil and gas industry since 1955 for both major and independent oil companies. His specialty is central Alberta oil and gas geology. Hobbs was born in Deloraine, Manitoba and graduated from the University of Manitoba with a Bachelor of Science degree in geology.

PETER KLEIN, JR., administrative supervisor, another new member of the Quasar management team added to our staff in 1973, brings to our company seven years of experience in accounting and administration in the Western Canadian oil industry. Klein attended Mount Royal College in Calgary.

LEW WIEGEL, operations administrator, joined Quasar in early 1974. He has been employed in the oil and gas industry since 1956. At Quasar he supervises cost and equipment control for the drilling of wells. Wiegel was born in Waldheim, Saskatchewan.

HAROLD R. HEGLAND, landman, also joined Quasar in 1973. A graduate of Cornell University in New York, he holds his Bachelor of Science degree in Business Administration and pursued graduate studies at the University of Oregon. Hegland has over four years experience with a major oil company. He is primarily responsible for land administration, land records and contracts. Hegland was born in Lethbridge, Alberta.

MRS. ANNE HOCKEY, assistant corporate secretary, is also responsible for shareholder relations, and has more than ten years experience in the Canadian oil industry. She was born in Calgary, Alberta, and attended Mount Royal College in Calgary.

Lew Wiegel *Peter Klein, Jr.*

Harold R. Hegland *Mrs. Anne Hockey* *J. Kenneth Grove*

Financial Statements

Summary Of Significant Accounting Policies

The Company is an 80.7% owned subsidiary of American Quasar Petroleum Co. ("American Quasar"), a Texas corporation.

Acquisition costs of undeveloped properties and related geophysical costs are capitalized. Such costs asssociated with productive properties are depleted on a lease by lease unit of production method based on estimated recoverable reserves of oil and gas. The costs associated with properties which are drilled and abandoned are borne by the limited partnerships, while 40% of the costs associated with abandoned properties which are not drilled are charged to operations and 60% are charged to the limited partnerships.

Productive properties are evaluated periodically on a group basis, and any excess of unrecovered costs, including equipment, of such properties over estimated future net revenues is reflected in operations. A group consists of the Company's proportionate ownership of all joint venture properties with a particular limited partnership. Well equipment and gathering facilities are amortized on a straight line basis over the lesser of their estimated useful lives or the remaining life of the related property (12 to 30 years). Unrecovered costs of productive properties are charged to operations at the time they are determined to be uneconomical.

Loss per common share for 1973 and 1972 is based on the weighted average of shares outstanding during the year.

Statements Of Operations And Deficit

	Years ended December 31, 1973	1972
Revenue		
Oil and gas sales	$ 181,000	$ 143,000
Interest and other income	160,000	—
	341,000	143,000
Expenses		
Production and operating	95,000	88,000
Exploration	25,000	56,000
Depreciation and depletion	127,000	133,000
Administrative	333,000	196,000
Interest	119,000	—
	699,000	473,000
Net loss for the year	358,000	330,000
Deficit beginning of year	1,101,000	771,000
Deficit — end of year	$1,459,000	$1,101,000
Net loss per share	$ .09	$ .09

The accompanying Summary of Significant Accounting Policies, Description of Joint Venture Agreement and Limited Partnerships, and Notes to Financial Statements are integral parts of these financial statements.

Balance Sheets

	December 31, 1973	December 31, 1972
Assets		
Current assets		
Cash	$ 229,000	$1,022,000
Accounts receivable		
Trade	257,000	698,000
Limited Partnerships	545,000	62,000
Gas purchaser	—	721,000
Insurance claim covering costs of control and redrilling a well	—	1,117,000
Total current assets	1,031,000	3,620,000
Oil and gas properties (Note 2)		
Developed	526,000	424,000
Well equipment and gas treating facilities	1,895,000	853,000
Undeveloped	3,040,000	670,000
Drilling in progress and warehouse inventory	540,000	307,000
	6,001,000	2,254,000
Less		
Accumulated depreciation	77,000	41,000
Accumulated depletion	35,000	16,000
	112,000	57,000
	5,889,000	2,197,000
Noncurrent assets		
Notes receivable from officers and shareholders (Note 4)	179,000	—
Receivables from limited partnerships (Note 1)	914,000	—
Other assets	139,000	146,000
	1,232,000	146,000
	$8,152,000	$5,963,000

The accompanying Summary of Significant Accounting Policies, Description of Joint Venture Agreement and Limited Partnerships, and Notes to Financial Statements are integral parts of these financial statements.

	December 31, 1973	December 31, 1972
Liabilities And Shareholders Equity		
Current liabilities		
Current portion of long-term indebtedness (Note 2)	$ 180,000	$ —
Trade payables and accrued liabilities	1,358,000	1,024,000
Total current liabilities	1,538,000	1,024,000
Long-term indebtedness (Note 2)	1,820,000	—
Advances from gas purchaser (Note 3)	1,690,000	1,690,000
Shareholders equity (Note 4)		
Common shares $.25 par value. 10,000,000 shares authorized; 4,037,420 issued and outstanding (4,017,770 at December 31, 1972)	1,010,000	1,004,000
Additional paid-in capital	3,553,000	3,346,000
Deficit	(1,459,000)	(1,101,000)
	3,104,000	3,249,000
Commitments and contingent liabilities (Note 1)		
	$8,152,000	$5,963,000

On behalf of the Board
Wilford B. Fultz, *Chairman of the Board*
David A. McMahon, *Vice Chairman of the Board*

Statements Of Changes In Financial Position

	Year ended December 31, 1973	1972
Financial Resources Were Provided By:		
Long term borrowings	$1,820,000	$ —
Issue of share capital (Note 4)	213,000	2,170,000
Advance from gas purchaser (Note 3)	—	1,690,000
Collections of notes receivable from parent	—	173,000
	2,033,000	4,033,000
Financial Resources Were Used For:		
Working capital applied to operations		
Net loss for period	358,000	330,000
Deduct charges not affecting working capital		
Depreciation, depletion and exploration costs	152,000	208,000
Working capital applied to operations	206,000	122,000
Expenditures in connection with oil and gas properties	3,772,000	1,402,000
Loans to limited partnerships (Note 1)	914,000	—
Loans to officers and shareholders	179,000	—
Other	65,000	(19,000)
	5,136,000	1,505,000
Increase (decrease) in working capital	($3,103,000)	$2,528,000

The accompanying Summary of Significant Accounting Policies, Description of Joint Venture Agreement and Limited Partnerships, and Notes to Financial Statements are integral parts of these financial statements.

Description Of Joint Venture Agreement And Limited Partnerships

The Company is party to a joint venture agreement with Canadian-American Resources Fund, Inc. ("Can-Am"), a wholly owned subsidiary of American Quasar.

Can-Am is the managing general partner for limited partnerships previously formed and to be formed in the future and has full exclusive discretion in the management and control of such limited partnerships; the Company acts as the non-managing general partner for the partnerships.

Unless specifically excluded from liability the Company and Can-Am, as general partners, are jointly and severally liable for all indebtedness of the limited partnerships in excess of the limited partnership's assets. As between the general partners, however, Can-Am is obligated to satisfy any such indebtedness to the extent of its assets.

The joint venture agreement with Can-Am, among other things, grants limited partnerships sponsored by Can-Am the right to participate in all oil and gas prospects assembled by the Company. The limited partnerships previously formed pay certain costs deductible for United States income tax purposes and earn a 60% working interest in joint venture properties while the Company is committed to pay certain costs which are not deductible for United States income tax purposes and earns a 40% working interest in joint venture properties. The limited partnerships are also charged with 60% of the shared costs and the Company is charged with 40% of the shared costs, being the costs of property and equipment acquired which are necessary and required for treating oil and gas production for market, the cost of any pipeline facilities required by a purchaser of production, the cost of secondary recovery systems, the cost of offshore production and storage platforms and related platform and gathering facilities, and the cost of any additional leases or leasehold interests purchased by a joint venture from third parties after a well on a drilling prospect has been drilled to a depth sufficient to indicate that such purchase would be in the best interests of the joint ventures. The limited partnerships' 60% portion of shared costs is paid only out of partnership revenues or partnership borrowings against such revenues. The limited partnerships also bear 60% of the Company's overhead allocable to the joint venture.

Costs incurred in connection with the joint ventures with limited partnerships through which the Company conducts substantially all of its exploration and production activities, and its proportionate share of joint venture operations have been included in the financial statements.

EVENT (UNAUDITED) SUBSEQUENT TO DATE OF REPORT OF INDEPENDENT ACCOUNTANTS

In May 1974, a preliminary prospectus was filed with the Securities and Exchange Commission which included a proposed amended joint venture agreement with Can-Am and limited partnerships to be formed in the future. It is expected that the final amended agreement will be similar in many respects to the previous agreement covering limited partnerships formed through March 31, 1974, although the company's participation in costs and revenues may be changed.

Notes To Financial Statements

1. Receivables From Limited Partnerships, Repurchase Commitment And Contingent Liabilities

The Company has advanced and may continue to advance, on behalf of the limited partnerships, funds for limited partnership drilling activities. Such advances are recoverable from the limited partnerships only out of limited partnership assets.

With respect to liabilities for which the general partners were contingently liable at December 31, 1973, the limited partnerships previously formed owed $2,139,000 ($921,000 at December 31, 1972). Of such amount $1,459,000 ($62,000 at December 31, 1972) was owed to the Company, $108,000 ($514,000 at December 31, 1972) was owed to Can-Am and the remainder was primarily owed to American Quasar and its other subsidiaries. The assets of such limited partnerships, consisting primarily of estimated future revenues from oil and gas properties, based upon independent engineering reports are deemed sufficient to assure repayment of such indebtedness.

At December 31, 1973, there were a substantial number of wells which were in the process of drilling, consequently the Company and the limited partnerships have not incurred all expenditures for which they were obligated.

The Company and Can-Am are committed to repurchase limited partnership interests, if tendered, at a price based upon a formula contained in the limited partnership agreement, which price is calculated by an independent petroleum engineer and is based primarily on the estimated value of the partnerships' assets as of the date of such calculation. Can-Am has agreed with the Company to satisfy such commitment to the extent that it has available funds. With regard to partnerships formed after December 31, 1973 the maximum aggregate amount of such commitment will be equal to 10% annually of total subscriptions. The repurchase commitment in regard to certain previously formed limited partnerships, which may be less than, but in no event will be more than $52,782,100 on an annual basis is:

1974	$ —
1975	2,400,000
1976	5,300,000
Annually thereafter	5,300,000

The Company and Can-Am are also committed to purchase limited partnership interests by direct investment in limited partnerships to be formed in 1974 and 1975. Such investment will be equal to at least 1% of the total contributions to the capital of each limited partnership.

2. Long-Term Indebtedness And Pledge Of Oil And Gas Properties

The Company borrowed $2,000,000 from a bank, bearing interest at ½ of 1% above the bank's prime rate which loan is secured by certain oil and gas properties and is payable in monthly installments as follows:

1974	$ 180,000
1975	360,000
1976	480,000
1977	480,000
1978	480,000
1979	20,000

3. Advances From Gas Purchaser

The Company has entered into a gas purchase contract for the sale of natural gas from certain leases. The gas purchaser is entitled to be repaid out of 25% of revenues from the wells based upon the minimum contract quantities of gas delivered and 50% of revenues in excess thereof for the first five years and 50% of all revenues thereafter until 110% of the advances are fully repaid. The gas purchaser can only recover these advances by receiving a portion of the proceeds from production. Under certain circumstances, the gas purchaser is entitled to receive interest on such advances, payment of which is secured by the leases and production therefrom with the Company having no other obligation. Initial sales of gas are estimated to commence in 1977.

4. Shareholders Equity

The Company has reserved 19,850 shares of its common stock for the exercise of options granted to employees, details of which are as follows:

Date of Grant	Number of Shares	Option Price (Market Value at date of grant)
August, 1972	14,850	$ 6.50
October, 1973	2,000	8.70
December, 1973	3,000	5.60

The option granted August, 1972, is exercisable at any time during a period of five years from the date of the grant; the option granted October, 1973, is exercisable as to 1,000 shares October, 1974, and 1,000 shares October, 1975; and the options granted December 1973, are exercisable commencing with the date of the grant as to 20% of the grant each year on the anniversary date thereof.

During 1973, options for 5,150 shares previously granted to an officer and director at a price of $3.25 per share (market value on the date of grant was $6.50) were exercised. Market value at date of exercise was $8.15.

In addition, the Company entered into agreements with key employees whereby 14,500 shares of the Company's common stock were subscribed for at prices ranging from $8.70 to $10.75 (market value at date of agreements). The total purchase price is payable three years from date of grant ($135,535 March 1976 and $43,500 October 1976) or in three equal annual installments at the employee's option. The shares purchased have been pledged as security and can only be released upon payment.

Outstanding warrants to purchase 733,700 common shares of the Company became exercisable on December 26, 1970 and entitled the holder thereof to purchase one common share of the Company at a price of $2.50 until June 26, 1971 and thereafter at a price of $5.00 until June 26, 1972, on which date they expired; warrants for 453,015 shares were exercised at a price of $5.00 per share during 1972.

The changes in share capital and additional paid-in capital resulting from the exercise of options and warrants is shown below:

	Share Capital	Additional Paid-in Capital
Balance December 31, 1971	$ 891,000	$1,289,000
Exercise of warrants during 1972	113,000	2,057,000
Balance December 31, 1972	1,004,000	3,346,000
Exercise of stock options and stock purchase agreements by employees	6,000	207,000
Balance December 31, 1973	$1,010,000	$3,553,000

5. Income Taxes (Canadian)

The Company has incurred losses aggregating $1,400,000 since inception for financial purposes. For income tax purposes, the Company is entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which exceed the related charges to operations. For income tax purposes the company has losses and unclaimed expenditures aggregating $7,000,000 which are available to be applied against future taxable income.

6. Statutory Information

Aggregate direct remuneration paid by the Company to directors and senior officers of the Company amounted to $141,000 for the year ended December 31, 1973.

To the Shareholders of
Quasar Petroleum Ltd.

We have examined the balance sheets of Quasar Petroleum Ltd. as at December 31, 1973 and 1972 and the statements of operations and deficit and changes in financial position for the years then ended appearing on pages 16 through 23. Our examinations included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at December 31, 1973 and 1972 and the results of operations and changes in financial position for the years then ended, in accordance with generally accepted accounting principles consistently applied.

Price Waterhouse & Co.

Chartered Accountants

Calgary, Alberta
March 12, 1974

Offices

General Office
720 Calgary Place No. 1
330 — 5th Avenue S. W.
Calgary, Alberta
(403) 261-5820

Officers

C. O. Ted Collins, Jr.
President

Bobby F. Abernathy
Executive Vice President

William M. Bogert
Vice President — Operations

J. Kenneth Grove
Vice President — Land

Wilford B. Fultz
Vice President

Walter A. Schmid, Jr.
Vice President

Albert J. Cohen
Secretary-Treasurer

Anne M. Hockey
Assistant Secretary

Directors

Bobby F. Abernathy
Fort Worth, Texas

C. O. Ted Collins, Jr.
Midland, Texas

Wilford B. Fultz
Fort Worth, Texas

Richard L. Lowe
Fort Worth, Texas

Robert G. McCulloch
Toronto, Ontario

David A. McMahon
Fort Worth, Texas

Walter A. Schmid, Jr.
Hico, Texas

Glenn C. Speakman
Toronto, Ontario

Legal Counsel

Saucier, Jones, Black, Gain, Stratton & Laycraft
Calgary, Alberta

Registrar and Transfer Agent

The Royal Trust Company
Calgary, Alberta and Toronto, Ontario

Independent Accountants

Price Waterhouse & Co.

Bankers

The Royal Bank of Canada
Calgary, Alberta

Shares Listed

Toronto Stock Exchange
(Symbol QRP)
Vancouver Stock Exchange
(Symbol QRPV)

Four-Year Financial Review

	December 31, 1973	1972	1971	1970
Revenues				
Oil and gas sales	$ 181,000	$ 143,000	$ 47,000	$ 2,000
Interest and other income	160,000	—	12,000	49,000
	341,000	143,000	59,000	51,000
Expenses				
Production and operating	95,000	88,000	28,000	2,000
Exploration	25,000	56,000	11,000	300,000
Depletion and depreciation	127,000	133,000	101,000	27,000
Administrative and interest	452,000	196,000	159,000	144,000
Extraordinary item	—	—	—	42,000
	699,000	473,000	299,000	515,000
Net Loss	358,000	330,000	240,000	464,000
Net loss per common share	.09	.09	.07	.14
Number of common shares used to compute loss per share	4,027,000	3,791,000	3,454,000	3,344,000
Working capital applied to operations	206,000	122,000	108,000	137,000
Increase (decrease) in working capital during the period	(3,103,000)	2,528,000	217,000	(1,239,000)
Total assets	8,152,000	5,963,000	1,664,000	1,315,000
Net cumulative investment in oil and gas properties	6,001,000	2,254,000	925,000	299,000
Shareholders' equity	3,104,000	3,249,000	1,409,000	1,118,000
Shareholders' equity per share	.77	.81	.40	.33

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CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Six Months Ended June 30, 1973	Six Months Ended June 30, 1972
FINANCIAL RESOURCES WERE PROVIDED BY:		
Proceeds from issue of share capital - net	$ 136,000	$ 2,157,000
Collection of loans made to parent	—	173,000
Other	—	8,000
	136,000	2,338,000
FINANCIAL RESOURCES WERE USED FOR:		
Working capital applied to operations		
Net loss for period	191,000	136,000
Less depreciation, depletion, exploration costs and other charges not affecting working capital	105,000	66,000
Working capital applied to operations	86,000	70,000
Leaseholds and equipment	2,029,000	413,000
Increase in noncurrent receivables	426,000	—
Purchase of other assets	70,000	19,000
	2,611,000	502,000
INCREASE (DECREASE) IN WORKING CAPITAL DURING PERIOD	$ (2,475,000)	$ 1,836,000

CONSOLIDATED STATEMENT OF OPERATIONS

	Six Months Ended June 30, 1973	Six Months Ended June 30, 1972
REVENUES		
Oil and gas sales	$ 65,000	$ 42,000
Interest and other income	31,000	—
	96,000	42,000
EXPENSES		
Production, operating and exploration costs	71,000	45,000
Administrative and geological	116,000	67,000
Depreciation, depletion and amortization	77,000	66,000
Interest	23,000	—
	287,000	178,000
NET LOSS	$ 191,000	$ 136,000

These statements are subject to final adjustment and audit at the year end.

SEMI-ANNUAL REPORT TO SHAREHOLDERS

FOR THE SIX MONTHS ENDED

JUNE 30, 1973

QUASAR PETROLEUM LTD.

ALCRAFT • CALGARY
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TO OUR SHAREHOLDERS

This brief report is intended to bring you up to date and advise you of the Company's proposed activities for the remainder of 1973.

GRIZZLY VALLEY

Drilling operations at Grizzly Valley in British Columbia are continuing at an accelerated pace. The Flatbed well is drilling at 11,300 feet, the Wolverine well is drilling at 9,100 feet and a new well designated South Grizzly is scheduled to be spudded in early September. Two additional wells are planned for later this year.

The Grizzly A-2 well has been drilled to a total depth of 17,243 feet into formations of Mississippian age. Casing has been run and testing has commenced. The well has excellent potential of significant gas production from several horizons. Definitive results will be released later this year when production testing is completed.

EXPLORATION AND DRILLING

In order to provide the best possible opportunity to locate large reserves of oil and gas the Company must participate in diversified and costly drilling activities. By participating, through joint ventures with public drilling funds sponsored by Canadian-American Resources Fund. Inc., a U.S. affiliate, the Company has been able to participate and manage a far larger drilling and exploration program than it would have if it were dependent upon its own assets.

By expanding our geological and operations staff in Calgary we have developed more drilling prospects and have the ability to supervise more drilling operations than ever before. In 1973 we plan to direct and manage a drilling and exploration program in excess of $15,000,000. This program is the largest in the Company's history and could exceed all prior years combined. In this year's program we have already established new oil production at Black Rain in Northwestern Alberta and at West Drumheller in Central Alberta. Several wells are drilling on other prospects and we anticipate spudding several more shortly. Development operations on several prospects included in prior years' programs are scheduled to commence this fall.

OTHER

The shares of the Company were listed for trading on the Toronto Stock Exchange (Symbol QRPT) on May 28, 1973 and application for listing of such shares on the Vancouver Stock Exchange is now being made.

The Company has entered into an agreement to acquire all of the outstanding shares of Blue River Saw Mills, Ltd., a British Columbia corporation. Blue River will be utilized for development of natural energy resources in British Columbia. The agreement provides that the Company will issue a number of its shares to the Blue River shareholders in exchange for all of the shares of Blue River. The number of shares to be issued will be determined by dividing the value of the net assets of Blue River at the closing date by the higher of the average closing price of the Company's shares on the Toronto Stock Exchange during the month of October, 1973, or $10.00 per share. It is estimated that Blue River's net assets will have a value of approximately $1.5 million to $1.7 million. Completion of the transaction is subject to obtaining certain tax rulings and regulatory consents and approvals.

C.O. Ted Collins Jr.

Calgary, Alberta
August 28, 1973

President